

Message Text

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TAGS: ECON, EFIN
SUBJECT: BARUA STATES AUSTERITY TO CONTINUE

BEGIN UNCLASSIFIED

1. LOCAL PRESS TODAY REPORTS COMMENTS MADE SUNDAY BY LUIS
BARUA CASTANEDA, MINISTER OF ECONOMY AND FINANCE. HE GAVE A
GLIMPSE OF GOP ECONOMIC GAME PLAN FOR 1977.

2. AUSTERITY. HE STATED THAT 1977 "WILL BE A YEAR OF
AUSTERITY AND CONTINUED EFFORT DIRECTED TO RECUPERATION
OF THE NATIONAL ECONOMY". THE PRIVATE SECTOR, HE SAID, WILL
RECEIVE APPROPRIATE STIMULUS TO BE A "DECISIVE FACTOR"
IN ECONOMIC PROGRESS.

3. THE CENTRAL GOVERNMENT BUDGET. THE MINISTER STATED
"THE BUDGET THAT WE HAVE PREPARED IS REALISTIC AND WILL GIVE
INCREASED LIQUIDITY PRINCIPALLY TO THE PRIVATE SECTOR AND,
THEN, TO THE PUBLIC SECTOR." HE STATED THAT ON TUESDAY THE
BUDGET WILL BE CONSIDERED BY THE COUNCIL OF MINISTERS.

4. INFLATION. BARUA STATED "WE HAVE TO CONTROL INFLATION
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BECAUSE IT IS THE WORST DAMAGE THAT CAN BE DONE TO THE
PEOPLE". "IN 1977 WE EXPECT THAT INFLATION WILL BE ONLY
15 PERCENT".

5. WAGES. BARUA STATED THAT BEGINNING IN JUNE LABOR UNIONS
COULD SUBMIT REQUESTS FOR INCREASED WAGES BUT THAT IN NO CASE

WOULD THESE REQUESTS BE PERMITTED TO EXCEED 15 PERCENT. HE STATED, "TO MAKE LARGER INCREASES WOULD SIGNIFY AN UNCONTAINABLE INFLATIONARY SPIRAL." HE ALSO NOTED THAT THE GOP IS STUDYING A LAW OF WAGES FOR THE PUBLIC SECTOR AND THAT ALL QUESTIONS RELATED TO INCREASED WAGES IN THE PUBLIC SECTOR WOULD BE RESOLVED BY THE MINISTRY OF LABOR.

6. FOREIGN TRADE. BARUA STATED THAT PERU'S EXTERNAL SECTOR HAD TO BE VIEWED WITH A CERTAIN DEGREE OF RESERVATION BECAUSE WORLD MARKET PRICES OF RAW MATERIALS DO NOT SHOW SIGNS OF RECOVERY EVEN THOUGH THE MONTHS OF SEPTEMBER AND OCTOBER HAD BEEN ENCOURAGING. HE STATED THAT THE VOLUME OF PERU'S EXPORTS IN 1977 WOULD BE HIGHER THAN THE 1976 VOLUME AND THAT THE GOP WOULD MAKE SINCERE EFFORT TO GIVE INCENTIVE TO EXPORTS OF NON-TRADITIONAL PRODUCTS. END UNCLASSIFIED. BEGIN LIMITED OFFICIAL USE.

7. COMMENT. THE STATEMENTS OF BARUA INDICATE THAT THE GOP APPEARS TO HAVE SET A COURSE TO CONTINUE THE AUSTERITY PROGRAM. THE ONLY SURPRISE IS THAT THE GOP GAME PLAN DOES NOT APPEAR TO INCLUDE A GENERALIZED WAGE INCREASE PACKAGE AT THE OUTSET OF 1977. BARUA'S INDICATION OF A CONTINUED WAGE FREEZE FOR THE PRIVATE SECTOR MAY BE A TRIAL BALLOON. AT THE LEAST, MOST WORKERS HAVE EXPECTED SOME INCREASE IN WAGES TO COMPENSATE FOR THE INFLATION SINCE THE JUNE 1976 DEVALUATION. MODERATE UNION LEADERS TELL THE EMBASSY THAT, IF THE GOP ATTEMPTS TO FREEZE WAGES UNTIL JUNE, SEVERE SOCIAL UNREST CAN BE EXPECTED BEFORE MARCH.

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